Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

Lessons Learned Oral History Project Interview

Interviewee Name and Crisis Position	Chester B. Feldberg[1] Trustee, AIG Credit Facility Trust
Interviewer Name	Maryann Haggerty (Contractor) Yale Program on Financial Stability
Date of Interview	August 27, 2020
Lessons Learned No.	2020-07

Introduction:

The Yale Program on Financial Stability (YPFS) contacted Chester B. Feldberg by email to request an interview regarding Feldberg's time as a trustee for the AIG Credit Facility Trust (2009-2011), as well as his perspective on financial crises gained from his earlier 36-year career with the Federal Reserve Bank of New York.[2] The trust was established in early 2009 to hold the equity stock of American International Group Inc. (AIG) the U.S. government had received as a result of the 2008 AIG bailout. The three trustees were responsible for voting the stock; ensuring satisfactory corporate governance at AIG; and eventually disposing of the stock.

When he was named as a trustee, Feldberg was retired. Immediately previous, he had been chairman of Barclays Americas 2000-2008). He had retired from the Federal Reserve System in 2000. At that time, he was executive vice president of the Bank Supervision Group. Earlier, he ran the New York Fed's discount window, and worked on teams involved with several financial system crises.

This interview was conducted in August 2020. Feldberg had largely returned to retirement.

[*This transcript of a telephone interview has been edited for accuracy and clarity.*]

Feldberg: After going over the questions and thinking about it, I could write a book in response to the questions you posed. I thought what I might do is just begin by providing an overview of the Fed's traditional role in providing emergency credit from two vantage points, one in the case of banking organizations, the other in the case of non-banks, and then commenting on various requests for emergency assistance that we dealt with over the years, which you identified in your list. If we are still awake at that point, get into AIG. In doing that, I would try to address most of the issues that you have raised, but if you don't think

[1] The opinions expressed during this interview are those of Mr. Feldberg, and not those any of the institutions for which the interview subject is affiliated.
[2] A stylized summary of the key observations and insights gleamed from this interview with Mr. Feldberg is available here in the Yale Program on Financial Stability's *Journal of Financial Crises*.

you need all the background, you can just ask questions and I'll try and answer them.

YPFS: **Let's do some background and history and context for a little bit, and I will only interrupt you when I'm confused.**

Feldberg: You can also interrupt if you have questions that you want to pursue.

YPFS: **Let's go.**

Feldberg: These are my impressions based on an imperfect memory. So I'm not sure I recollect it 100 percent right. But starting with the Fed's role in relation to banks and particularly failing banks, I'm sure you know the Fed's got broad authority to provide financial support to a failing bank either to give the bank time to resolve its problems or, depending on the size of the failing bank, to give the FDIC time to develop a plan to close the bank or merge it into a stronger institution.

The overriding objective of the Fed in these situations is to prevent the bank's failure from having an adverse impact on the smooth and orderly functioning of the banking system and on public confidence in the system. The bigger the failing bank, the greater the danger of a contagion effect on the banking system as a whole, or in other words, in the level of systemic risk that exists.

For the largest banks, with the huge numbers of financial transactions that they have daily with other large banks, both in the U.S. and internationally, the risk of a domino effect on other banks is very high if a big bank fails. In such cases, it would be hard for depositors or creditors of other banks to know the level of financial exposure that their banks have with a bank that's failing. That could lead to widespread uncertainty and to a general lack of confidence in the banking system more broadly, and to a freezing up in the payments system, none of which are good things.

This leads me to the controversial subject of Too Big to Fail. Many economists oppose the concept of Too Big to Fail, arguing that it provides, or can provide, an unfair advantage to the biggest banks. In times of crisis and uncertainty, money would gravitate to the big banks where the creditors would feel more secure, assuming the biggest banks would not be allowed to fail.

A number of years ago, the chairman of the Fed, in an attempt to calm down unsettled markets at that time—I don't even remember exactly when it was—he opined in public that the Federal Reserve would not allow any of the 12 largest banks in the country to fail. Not surprisingly, the reaction to the market was to seek to identify which bank was number 13.

In my view, in the event of a likely major bank failure, even if it's by the 13th largest bank, the Fed and the Treasury would have no choice but to support the failing bank, at least until an orderly resolution could be arranged, whether it's through merger, capital injection, or otherwise. Fortunately, we haven't experienced this. I can't remember the disorderly failure of a major bank in my experience, although there have been some big bank mergers along the way designed to head off potential failures.

YPFS: **What would you have called Continental Illinois? Now I'm going to sound old, but…**

Feldberg: Yeah, for these purposes, I would call it a major bank. I don't remember what its ranking was at the time, but I think it was certainly in the top 10.

YPFS: **Yes, but you would have said that that failure was managed in an orderly fashion?**

Feldberg: At the end of the day, yes. I mean, there was some pain and suffering along the way, and I'm sure the shareholders of Continental weren't all that happy, but time was afforded to Chase to become the white knight.

YPFS: **Okay.**

Feldberg: Okay. I also remember a Sunday meeting at the Federal Reserve Board in Washington where the subject of the meeting, and I mean this literally, was what to do if one of our major banks failed. I will say that they had a particular bank in mind at the time. I'm happy to say that emergency Federal Reserve action was not required. But it gives you some sense of how close we may have come.

That's a brief summary of the Fed's approach to providing emergency support to failing banks. Let me now talk a little about the Fed's historical position on providing emergency credit to nonbanks. Under the Federal Reserve Act, as I'm sure you know, the Fed's got some very limited authority to lend to anybody in, and I quote, "unusual and exigent circumstances." While a few loans were made under this authority back in the '30s, I believe that the total amount of those loans was only around $1 million.

Since the '30s, there may have been a few requests by nonbanks for Federal Reserve support, but to my knowledge, no loans were ever made. The Fed took a very tough line on using its authority to lend to nonbanks. The first requests I'm familiar with were by Lockheed in 1971, by New York City in '75 and by Chrysler in '77.

I think Lockheed's a good example. It ran into financial trouble developing and marketing its new wide body aircraft at the time. I guess that aircraft is now

40 years old, but at some point, its bank lenders refused to lend any more funds to Lockheed, and the company appealed to the Fed for help. While Lockheed's failure would have had a big impact on the California economy, Southern California in particular, the Fed did not believe that its failure would do significant damage to the financial system as a whole, which as I said earlier, was the Fed's major concern. The Fed concluded that any decision to provide government support to Lockheed was a political decision best left to the Administration and Congress rather than the central bank.

I should note that I wasn't involved in the original decision not to lend to Lockheed. I didn't get into the lending area until '75, but it seems to me that it was the right decision, as history has shown.

The U.S. government did respond to Lockheed’s request for financial assistance. Congress initiated, and the Administration passed legislation in the broad public interest to support Lockheed. They provided loan guarantees to the banks to induce them to make new loans. The net effect was it kept Lockheed running. The loan guarantee was never in fact drawn down on; the government received significant fees for providing the loan guarantee; and the Fed avoided a precedent that could have encouraged other potential borrowers to seek Federal assistance using the Lockheed precedent as a lever. This could have put the Fed on a very slippery slope and a very political one. "You did it for Lockheed. Why not for me? You did it for California. Why not for Illinois?" Once the gates were opened, it could have been very hard to close.

As with Lockheed, the New York City and Chrysler cases followed a generally similar pattern. The Fed used the Lockheed precedent to direct these potential borrowers to Congress and the Administration to make the case that government support was needed in the public interest. In both cases, the political decision was ultimately made to provide government support and bankruptcy was averted.

Turning to the Third World debt crisis, to my knowledge, serious consideration was never given by the Fed to extending emergency support to individual LDC countries. The financial support ultimately came from the major bank lenders for each country, working in close collaboration with the IMF.

Not directly relevant, but I'll mention it anyway—even though the Fed was not a lender in that situation, the Fed played a very important catalytic role as an informed third-party observer trusted by all sides. We knew all the players, we were on top of the issues, people would talk to us in a way that they wouldn't talk to each other. I think it's pretty clear that even though we weren't lending, we played a constructive role in the development of viable proposals that both the banks and the LDC countries would agree to.

I know that the same thing also was true in the case of New York City. We had lines open to the Treasury, to the governor of New York State, to the mayor of New York City and to the banks, but they were all looking to us for independent and informed reactions to their draft proposals because we were not a lender and because our interest was in an effective resolution of the problem in the public interest, we were able to get information from them that they weren't sharing with each other and were able to use that information to help change or develop the direction of their proposal. I would not underestimate the Fed's role in that regard.

LTCM, I wasn't involved in. I was in Basel for a meeting of international bank supervisors when the crisis developed and it was really a matter for our markets area to deal with. In the end, the banks solved the problem without government financial support, although I think it's clear that the Fed exerted a lot of moral suasion in getting the banks to step up to the plate. My own personal view is that I would have liked to see Long-Term Capital Management held more accountable for their outrageous efforts to game the system. I never had the feeling that they were sufficiently penalized, but maybe I don't know enough.

YPFS: **So how do you think those experiences and lessons carried forward for the system to the events of 2007 and 2008?**

Feldberg: Well, quite honestly, I don't think they do. My view is that the 2007-2008 crisis was much larger and more dangerous than all of the other crises I talked about, on a combined basis. In fact, I have told people that I was happy that I was retired by the time the 2007 crisis developed, because there was a lot of uncertainty as to how and whether it was going to get effectively resolved. I don't see how the experiences with the earlier crises would have helped us get through 2007-2008.

To my mind, that crisis confirmed my long-held view that when the financial system is in serious danger of implosion, the Fed and the Treasury will have to do whatever it takes to manage the crisis. This, as it happened, involved thinking out of the box and without regard to the constraints of past precedent. That process may not have been pretty and it may not have been perfect, but I think it's clear that it did save the day.

YPFS: **So let's move to 2008. Let's talk about your role as a trustee for the AIG credit facility. Can you just give an overview of what that entailed, what some of the major issues were, and then we can go into how some of those issues were resolved.**

Feldberg: You're staying one step ahead of me, that's where I was going next. Let me start with the role of the trustees. That role was specified in the terms of the trust agreement that was executed. I don't know if you've seen the trust agreement.

YPFS: **Years ago, I guess I should look at it.**

Feldberg: Yeah, that depends on where your interest lies, but there's a lot of stuff in there. A lot of it was negotiated at length between the proposed trustees and the Fed. You understand the Treasury was not really involved at the outset. We're talking about the fall of 2008, when you had a Presidential election going on where the party in power changed, so there really, at that point, did not appear to be anybody at Treasury minding the store who could speak for the Administration … So the Fed really took the bull by the horns and that's why you see its footprints all over the trust agreement.

Eventually the Treasury did bring in somebody from the outside who was a resolution expert, and who played a very major role in the ultimate divestment of the stock, but I'm getting ahead of myself. The terms of the trust provided that the trustees would hold and ultimately dispose of AIG stock, which had been acquired by the government in return for its bailing out AIG.

The rationale was that the Fed, and I think the Treasury at the outset, were concerned about the actual or appearance of conflict of interest that would arise from the Treasury's or the Federal Reserve's owning the equity stock directly. Since they act as a regulator of the banking industry and have some responsibilities in the insurance sector, the concern was that other insurance companies might perceive that decisions were being made at their expense for the benefit of AIG. Those are my words, but I think that was the thrust of it.

The trustees had both immediate and longer-term responsibility. Near term, once we were given the stock, we had the voting rights in AIG, which we were charged with exercising in the best interest of the Treasury and with a view to maximizing the value of the stock. In voting the stock, we were functioning as the majority shareholder of the company because we held 80 percent of the equity. We were also charged with ensuring that AIG's board maintained satisfactory corporate governance procedures.

The expectation going in was that at an appropriate time, which we thought was three to five years in the future, the trustees would be asked to develop a plan to dispose of this stock in a way that maximized value to the Treasury. Under the terms of the trust agreement, the trustees were instructed not to manage the day-to-day operations of AIG, but we were expected to assure that AIG had a strong board of directors and a strong management team.

Initially, the expectation was that the work of the trust was back loaded and that most of it would be in the disposition of the stock at some point in the future. What we didn't anticipate going in, was that a major issue would develop regarding the huge bonuses that AIG had paid to officials in the Financial Products Division, which was the division largely responsible for creating the AIG financial crisis. This was by far the biggest issue the trustees had to face until it came time to dispose of the stock. When the bonus issue surfaced, which was almost immediately after the trustees had been appointed, there was finger-pointing in our direction. At the congressional hearing at which we were asked to testify, there were some members of Congress who seemed to think that the trustees should be held accountable.

When the bonus issue became known, Congress and the public were up in arms. The negative publicity at the time seriously damaged AIG's reputation and its outlook. The situation was bad enough that the trustees, who were monitoring things as closely as we could, concluded that a major overhaul of AIG's board was necessary if we were going to improve the company's governance framework and restore confidence in its management.

At that time, we, went out and hired a head-hunting firm to identify candidates to replace several of the existing board members. Among other things, we sought a new audit committee chairman, a person with deep HR experience, particularly on compensation matters, and a person with extensive restructuring experience. In addition, we were looking for two or three former CEO types with broad management experience, one of whom could possibly serve as board chairman if necessary in the future.

Ultimately, we settled on six strong candidates, roughly half of the existing board. We interviewed each, and based on those interviews and the quality of the people we interviewed, I remember thinking at the time that if we could induce one or hopefully two of the six to join the board, we would be doing real well. We were very surprised and heartened that all six responded positively, although one had a conflict of interest he had to resolve before he could join, although he did eventually join.

I'll come back to the director search matter in a few minutes when I get to the issue of trustee independence. I should note that we faced a major organizational issue on day one of the trust, in that we had no office and no staff to support us. We immediately hired a law firm to advise us on the terms of the trust agreement and other legal matters, and we also asked them to provide administrative support to us.

We also hired someone to advise us on communication issues in dealing with the public. We could see that that was going to be an important consideration. What we didn't do was decide to build our own staff empire. After considerable internal debate among the three trustees, we determined that unless we subsequently found it necessary to have our own independent staff advising us, we would rely in the first instance on the considerable staff resources that the Fed already had in place as AIG's major creditor. My recollection is they had 15 full-time employees onsite at AIG during this period.

Now, you need to know that all three of us had prior relationships with the Federal Reserve. I had run Bank Supervision while the General Counsel of the Fed was running Legal, and we had worked very closely over many years together. I knew and had total trust that whatever we agreed to as the way forward, he would live up to his share of the bargain. I think the other trustees who had different relationships with him felt the same way.

We evolved a process whereby we met regularly with Fed officials, at least weekly to gather information and to keep informed of any significant developments from their vantage point, on the clear understanding that any decisions that had to be made would be made strictly on our own. We also met regularly with AIG's CEO and key senior officers and some of the directors of AIG to get their changing perspectives on their restructuring plan for AIG. I think it's fair to say that the arrangement with the Fed worked very well and the trustees never felt that either we weren't getting the information that we needed to do our jobs or that it was in any way, slanted one way or another.

YPFS: **But still there was some controversy about that with the relationship among the trustees, the Fed, and the company. Do you think that this worked or were there things that would have changed the appearance?**

Feldberg: Well, the appearance may have looked a little suspect. I remember one of the Congresswomen at the hearing was upset that all three of the trustees came from the same Zip code, as though we were all in it together. (In fact, one of the trustees was from Texas!) My view is that there was no specific instance that I was aware of, or I heard anybody comment on, suggesting that the trustees had not acted in an independent way on whatever the issue of the moment was. It was a hypothetical or a theoretical issue that some people focused on, but to my mind, it wasn't real. I never felt I wasn't getting the information I needed. I never felt that I was being sold a bill of goods by anybody. In the view of the trustees, as long as we were getting good information, it just didn't make sense to us to hire our own staff and incur a large bill that AIG would have had to pay.

We of course knew that the independence of the trust was absolutely critical to its successful operation and anything that might have impaired that, we would have reacted to, but it never really happened.

Let me now go back to the independence issue, which was a major issue from even before the trust was created. The three trustees were approached individually, and we each indicated that if the government felt that we could be helpful to the resolution of the AIG problem, we were fully prepared to help, but we wanted to make it clear at the outset that we expected to operate independently and not as a rubber stamp for decisions made by the Federal Reserve or the Treasury Department. We had specific discussions with the Fed about this while the trust agreement was being drafted. I remember Tom

Baxter who was the general counsel of the Fed, and a long-time associate and friend, stated very clearly that they had picked us because they knew we all had a background in financial crises and in systemic risk issues, and they wanted us for our independent thinking and judgment, and as I said, he honored that commitment throughout the duration of the trust.

YPFS: **Did you have your own insurance as if you were on the board of a company or something?**

Feldberg: I think there was an insurance policy but I don't remember the details. I never really paid attention to it because it was all kind of hypothetical.

But anyway, let me talk a little bit about the director search, because that is as good an example of our independence as I could possibly give you. As I said, we had come up with six names. We had talked with the head hunter and had talked to the six candidates. They each were willing to do it. Before going forward, really as a courtesy, but just in case they knew something we didn't know, we circulated the names to the Fed and the Treasury. At that point, I think the Treasury had some people that were involved with AIG, but they still weren't, I don't think, fully up to speed.

While the Fed came back with no suggestions, the Treasury came back with six new names to replace the six names we had come up with. I mentioned earlier the process we went through to come up with those names. It was very intense, it was very serious, and it was very productive. As I recall, the Treasury's names for the most part, were former Treasury officials at below top levels. They were proposed not because of their background in divestment scenarios, not because of their compensation experience, not because of their accounting background, not because they were capable of becoming chairman of the board if a need arose, but apparently because these were people known to the Treasury. We rejected all six names, and went with the six names that we had. If that's not independence, I don't know what independence is.

YPFS: **Let's move away from the independence issue. Let's talk about anything that you can talk about, about issues raised by using equity as collateral for the government loans to AIG, and how you would go on to hold and manage that equity interest.**

Feldberg: Yes. All right. Understand that the equity was not used as collateral. The equity was given to the government as a condition of the government providing financial support. So that's how the equity stock was put into the hands of the trustees. We weren't holding it as collateral for the Treasury or the Fed, we were holding the actual stock because it had been given to the government and placed by the Fed and the Treasury in the trust under the control of the trustees.

Now, the shareholders obviously weren't happy with having to give away 80 percent of the company in order to get federal government support, but what got pointed out to them on many occasions is that, they may have lost 80 percent of the value, but if the government hadn't stepped in, they would have lost 100 percent. My view was that the government needed to offer tough love to AIG. It was seeking a huge amount of money. I thought that the precedential implications of the arrangement could come back and bite the government in the future, unless the terms of the agreement were such that future companies would be discouraged from seeking federal help, except in the most dire of circumstances.

I can understand why [former AIG chairman and CEO] Hank Greenberg and the other shareholders didn't like it. I can understand why the shareholders didn't like the terms of the government's deal. But from the government's standpoint, it gave the government a tool and a lever to influence as necessary the decisions being made by the company and to protect the taxpayers' investment.

YPFS: **As you're moving forward through 2009 and onward, and you're holding and managing that equity for the benefit of Treasury, what part of it is making sure that the board is composed and governance? What else did you and the other trustees think that meant?**

You've just touched on part of how you held and managed the equity. Can you expand a little on that?

Feldberg: On some of the things we got into you mean?

YPFS: **Yeah, just a little, I mean, how did you see managing it for the benefit of Treasury?**

Feldberg: Well, in my mind what that meant was, maximizing the value of the equity stock we held when the time came to do a divestment plan. It was really in terms of making sure that the government got as much as they could for the stock that it had received. The trust agreement stated the trustees should hold the stock for the benefit of the Treasury. Questions arose whether that meant that the stock should be held for the Treasury Department or the U.S. taxpayer. The collective wisdom going in was that we held the stock for the U.S. taxpayer. So our decisions were going to get made in terms of what would best compensate the taxpayer for having provided this huge amount of money and not what was in the best interest of the Treasury Department. Although I must say I had trouble thinking of realistic scenarios where the Treasury Department would want to use it in a way that didn't maximize the value for the taxpayer.

YPFS: **Now, let's move on along a little to divestment. The researchers up in New Haven said that it seemed at one point the trustees were developing a divestment plan on how to dispose of the equity, but that they couldn't find a copy of that plan. Was there an actual…**

Feldberg: There wasn't a copy. I don't think there ever was a plan. My recollection of the evolution of this was, initially we thought it would be three to five years before a plan would be needed. We didn't hire an investment banker at the outset because there was no need for it. We weren't going to develop a plan at that point. Then what happened was, the Treasury hired Jim Millstein, who was a resolution expert. He came in and he wanted to take command and get a disposition plan prepared and implemented as quickly as possible, consistent with maximizing the value to the shareholders.

At the point that he came in and started working on a plan, the trustees realized that we needed our own investment banking expertise. So we hired an investment banking firm to advise us.

At that time, one of the three trustees for unrelated reasons opted to leave the trust. So, a third trustee needed to be appointed. The new trustee was someone who was very knowledgeable about divestment strategies. So we now had our own team of a trustee and an investment banker. I don't remember with precision the sequencing of events, but I do remember that from that point forward, our team worked very closely with the Treasury on the development of a divestment plan. I don't recall our ever formulating our own plan. There may have been some preliminary work done. I can't visualize it as we speak, but in any event, our thoughts were incorporated at every stage in the development of the final plan that the trustees ultimately signed off on.

YPFS: **Now, you had said that Treasury had brought on Jim Millstein…**

Feldberg: He is a very dynamic, knowledgeable guy. I mean, he knew more about the process than I knew or would ever know. I mean, with good reason. That's his business, it's not my business.

So our new trustee was also much more knowledgeable than I was, had experience, but probably didn't have the same depth of experience that Millstein had. Our investment banking firm, this was their business, so they could provide us very good independent advice at every step of the way.

YPFS: **And your investment bankers and Millstein's team were communicating?**

Feldberg: They were definitely communicating. What I can't tell you is how often they met or how often the exchanged drafts. I think all of that happened, but that process was so intense and so complex that in effect, the third trustee and I delegated—and I don't mean with a capital D, but with a small d—to our investment banking firm and our new trustee to do the legwork and the preliminary negotiations or discussions with the Treasury.

YPFS: **As you look back on that experience--it's been almost a decade now—so stepping back so you can see it from a higher level, knowing what you know today, what could have been done differently in the structuring, operation, whatever, of the trust?**

Feldberg: I have not spent a lot of time thinking about alternative divestiture plans or recapitalizations, which is not my field of endeavor. But what I did, one of the conclusions that I came up with along the way—or looking back—was that, the whole reason for creating a trust with independent trustees, as I said earlier, was that the government, certainly the Fed, and we understood the Treasury, going in, did not want to hold the stock themselves because of concerns about the appearance or the reality of conflicts of interest. I don't know that that was really necessary. It was certainly the more cautious way to proceed, but was it the necessary way to proceed? I don't know. I didn't really think about it at the time. They said conflicts of interest and I thought, bad thing.

But two points in this regard. First, we held 80 percent of the stock, I should have mentioned that the Treasury Department along the way acquired another 8 percent of the equity stock. As a result, you now had equity stock in AIG being held for the benefit of the government by two different groups, the trust and the Treasury Department. Secondly, if the Treasury Department could hold 8 percent of the equity stock without a conflict of interest, why couldn't it hold 88 percent. Is the critical difference that in the latter case it would have been the majority shareholder? Maybe so, but I guess all I'm saying is that if a way could have been found for the Treasury and/or the Fed to hold the stock during the period of the financing of AIG, that would have eliminated the need for a third player in the process. Even if we didn't have our own cast of thousands, we were still doing a lot of work and had a lot of ideas and interfacing with the Fed, the Treasury, AIG, just adding a further complication to the process.

I think that the trustees made a contribution, particularly with getting AIG's governance on a better footing, but I have no reason to think that the Fed or the Treasury couldn't have gotten to the same point. So that's a long way of saying that if you could get over the potential conflict of interest hurdle, I'm not sure you needed to have another player in the process. But that's my own personal view, and I haven't really spent a lot of time thinking about all of the implications.

YPFS: **That's an important point you just brought up. Are there other lessons that could be learned from your experience that would carry forward into possibly other crises, possibly what we dealt with earlier this year?**

Feldberg: All of these situations are quite different. I mean, I could go on and on about things that you should do in a crisis, but it's all pretty obvious stuff. I don't have any silver bullet. I mean, it's important that the decision makers be on top of an impending crisis before it burst. Actually, that would have been good advice for the Covid-19 crisis, but it is very hard to anticipate where the next crisis is coming from.

But that doesn't mean that we didn't try. Let me give you an example where we did get it right, relative to Chrysler. During the 1970s, I ran the discount window at the Fed before I took over bank supervision. At the time, we had a small staff of financial analysts that, among other things, tried to anticipate where the next financial crisis might be coming from and do whatever preliminary work we could do to anticipate and prepare for the possible crisis. That was part of our drill. In most cases, it didn't produce anything really useful.

However, one day I got a call from the fellow at the Treasury, who was their point person on the Lockheed loan guarantee program, while I was the point person for the Fed, so I knew him very well. He called in a mad panic. He said, "Lee Iacocca is coming in to see the Secretary the day after tomorrow," and he's trying to develop background material on the automobile industry and its major problems to share with the Secretary. He said, "By any possibility, do you have anything that would be useful?" He knew that we tried to keep abreast of broader industry developments.

As it turned out, about a week earlier, I had received a 100-plus page analysis of the automobile industry done by my team that was monitoring possible future problem areas, which I was able to send to him. And which he was able to get into the hands of the Secretary. While it didn't solve anything, it did give him a factual base for his meeting with Iacocca. I don't want to overstate it. It was to some extent lucky timing. But the fact of the matter is, we had tried to analyze an area that could become a possible hotspot, and it became a hotspot.

So trying to be as close to what's going on in the real world as possible is very important for the central bank. One way I did it was to maintain senior contacts at all the big banks and to encourage them to let me know if they saw industry developments that troubled them. Now, did that work all the time? No. Did it ever work? Yes.

One example occurred when banks started getting into the so-called low-doc, no-doc loans. Does that ring a bell to you?

YPFS: **Oh, yeah.**

Feldberg: I was informed by the CEO of one of the large banks in New York that he was very concerned that the use of these instruments was spreading and he could see it being a real problem. As a result of that tip, I looked into it and we ended up talking to our big banks about what they were doing and how they were doing it in a safe and sound manner. Again, just another small example of how we try to monitor what's going on. Of course, as a bank supervisor, we're always alert to what the banks are doing and what risks they are taking. While we don't want to stifle innovation, we want to stay as close to the evolution of the business as possible. So I think that's a worthy endeavor. Sometimes it works, sometimes it doesn't. But it doesn't hurt.

A couple of final observations. First, I think risk management has become an extremely important function at banks as the business has gotten ever more complex and diversified. The banks are into so many more types of activities than they used to be, that how they collectively manage all those risks is a vital function. Senior risk managers need to be knowledgeable across all areas of risk, independent within the management team, and prepared to blow the whistle if they see something they don't like.

I think audit's the same thing. The audit departments need to be independent and call things as they see them. That is always going to be a challenge. It's also a challenge for external accountants to operate independently, even where they have views that are not necessarily consistent with the views of the managers who hired them.

YPFS: **I promised that I'd keep this to about an hour, so I think we've covered a large amount of territory here. Is there anything that you'd like to add before I let you get back to life?**

Feldberg: No, it took me some time to get my thoughts organized for this interview. But I am happy that I did it, because it got me to take a fresh look at stuff that I hadn't thought about in a very long time, and to some extent, rethink things.

YPFS: **Thank you.**

Suggested Citation Form: Feldberg, Chester, 2020 . "Lessons Learned Interview." Interview by Maryann Haggerty. Yale Program on Financial Stability Lessons Learned Oral History Project. August 27, 2020. Transcript. https://ypfs.som.yale.edu/library/ypfs-lesson-learned-oral-history-project-interview-chester-feldberg